

Economic Forecast

Acknowledgement

The Economic Forecast is condensed from the
West Virginia Economic Outlook 2005© by:

George W. Hammond, Ph. D.
Director of the West Virginia Economic Outlook Project
Bureau of Business and Economic Research
College of Business and Economics
West Virginia University

The State Budget Office wishes to express a special appreciation to
Dr. Hammond and his staff for their generous assistance
and permission in using the following material.

Copyright 2004© by the West Virginia University Research Corporation

***West Virginia Economic Outlook 2005©
Bureau of Business and Economic Research
College of Business and Economics
West Virginia University
West Virginia***

Economic Forecast

Executive Summary

The tide has not yet turned for the state economy. As of June 2004, the state remains 5,900 jobs short of its March 2001 level, on a seasonally adjusted basis. That represents a drop of -0.25% per year on an annual basis, which is a bit better than national results during the same period (-0.3% annually). Indeed, the state's job losses since March 2001 place it about in the middle of the pack at 27th in the nation.

One major labor market development this year has been a large increase in coal mining jobs, which are now above their March 2001 level. On a seasonally adjusted basis, coal mining added 2,000 jobs from February to June of 2004. This hiring reflects rising production in response to a surge in coal prices in 2004. Indeed, the Energy Information Administration estimates that coal prices for selected grades of Northern and Central Appalachian coal have roughly doubled during the last year.

In contrast, manufacturing jobs have declined drastically since March 2001, with job losses totaling 10,200. This translates into an annual rate of -4.8%, which is similar to the national experience (-4.9%). Job losses are evident nearly across the board, but have been particularly severe in glass products, chemicals, and steel.

As usual, most service-providing sectors have added jobs since March 2001. However, professional and business services has gone from adding jobs at an annual rate of 5.5% per year during the 1990s to net job losses since March 2001. This reflects job losses in administrative, support, and management services (which in turn includes employment agencies and call centers). Call centers have struggled to cope with a national recession and increasing foreign competition since March 2001.

Service-providing sectors adding jobs at the fastest rate were leisure and hospitality (restaurants, hotels, gaming) and health care, with financial activities, other services, and government also growing, although at a slow rate.

During the April 2000 to July 2003 period, the state added 2,000 residents according to the latest Census Bureau estimates. All of this growth arose from positive net (domestic and international) migration, because the state continued to post negative natural increase (more deaths than births). Mild positive net migration reflects the fact that even though the state has lost jobs since 2001, it has slightly outperformed the nation.

On the unemployment front, the state's seasonally adjusted rate has fallen from 6.1% on average in 2003 to the 5.2-5.5% range during 2004, which, given the lack of job growth during the period, suggests an increase in discouraged workers in the state.

Finally, steady growth in earnings per worker and accelerating transfer payments into the state have supported real per capita personal income growth. Indeed, state growth has exceeded dismal national performance, which has generated a decline in the state income gap from -26.6% in 2000 to -21.6% by 2003.

The outlook for the state economy, as Table 1 summarizes, calls for growth in jobs and real per capita personal income during the next five years, assuming the national economy avoids recession. Job growth is forecast to accelerate next year, as the continuing surge in coal mining activity percolates through the state economy and as national job gains improve. Overall, state job growth is forecast to improve compared to average growth during the last five years, but to fall well short of growth during the 1990s and well short of national growth.

Coal mining job gains are strongest through 2006, with a net increase of 2,600 jobs expected during the 2003-2006 period due to continued production growth. Coal production is forecast to peak in the 165 million ton range during 2006-2007, and then to taper back to 155 million tons, as increasingly stringent air quality restrictions imposed on power producers cut into demand for high sulfur coals produced in the state.

Economic Forecast

Table 1
W.Va. and U.S. Economic Growth

	West Virginia				Average Annual Growth Rates			
	Actual		Forecast		1998-2003		2004-2009	
	1998	2003	2004	2009	W.Va.	U.S.	W.Va.	U.S.
Total Nonfarm Jobs (000s)	718.5	726.2	727.9	750.3	0.2	0.6	0.6	1.0
Real Per Capita Income (\$2000)	21,073	23,383	23,905	26,446	2.1	1.3	2.0	2.4
Population (000s)	1,816	1,810	1,814	1,808	-0.1	1.1	-0.1	0.9
Real Gross State Product* (\$96 Mil.)	37,791	40,311	41,070	43,626	1.3	2.7	1.2	3.0
Unemployment Rate** (Percent)	6.6	6.1	5.2	5.3	-0.1	0.3	0.0	0.0

* U.S. growth rates are for real gross domestic product. Real gross state product for W.Va. for 2003 is forecast data.

**Growth rate is average annual change.

Manufacturing job growth is forecast to improve, although only in the sense that job losses moderate. The forecast calls for manufacturing to drop an additional 1,800 jobs during the next five years, with those losses concentrated in glass, primary metals (including steel), and chemical products. Transportation equipment (including auto parts and aircraft), as well as wood products and plastic products are expected to post positive job gains during the next five years.

As usual, most of the net job growth generated in the state is forecast to come in the service-providing sectors, with professional and business services; health care; leisure and hospitality; and other services driving the growth.

Job gains contribute to sustained per capita personal income growth, helped along by the addition of relatively high-paying coal mining jobs. The combination of job and income growth keeps the state's population in the neighborhood of 1.8 million residents during the next five years. This population stability sets the stage for continued increases in the state's median age. Steady job gains also keep the state unemployment rate in the 5.3% range during the next five years.

While the baseline state outlook calls for rebounding growth during 2005-2006, that growth depends in part on expected national gains. With rising oil prices, rising interest rates, and declining federal fiscal stimulus, national economic growth may come in significantly below current expectations. Slower U.S. and international growth (including China) would reduce pressure on materials prices, including coal and steel, which could have an adverse impact on these sectors of the state economy during the forecast. In addition, high natural gas prices and rising oil prices also pose risks for the chemicals sector and large plant closures in this industry could significantly reduce expected statewide job and income growth.

Service-providing sectors also face risks during the forecast. For instance, professional and business services, including both high-tech oriented sectors and call centers, are likely to face increasing pressure from international competitors. Within the fast-growing leisure and hospitality sector, gaming establishments are likely to face additional competitive pressures from Pennsylvania and possibly Maryland.

This publication contains a wealth of information on the West Virginia economy. The next section, "West Virginia Outlook," covers in detail the state's current economic performance and the forecast for the next five years. The Risks section follows and investigates a number of possible alternative scenarios. The national forecast is summarized in the National Outlook section and the publication concludes with a data appendix and definitions of frequently used terms.

Economic Forecast
West Virginia Outlook

Recent Developments

Has the tide turned?

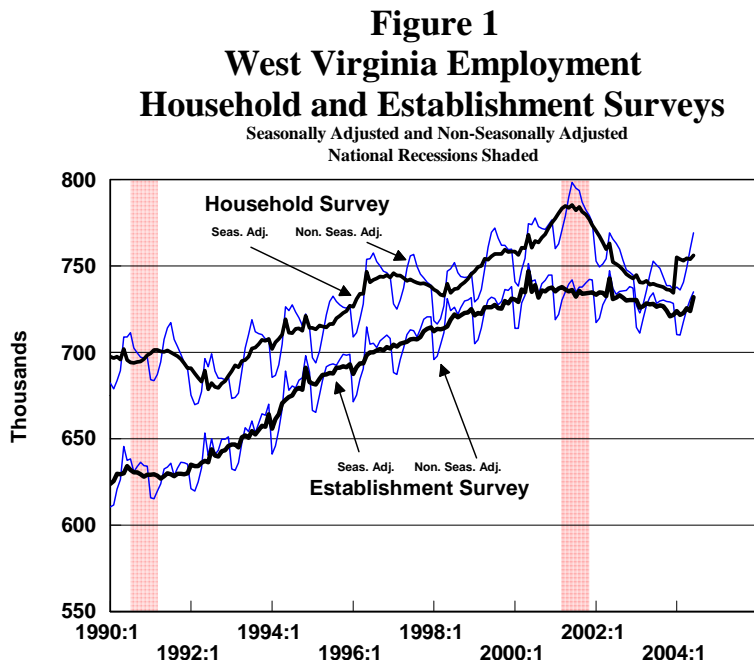
The state economy is still not producing much net job growth. As Figure 1 shows, this is essentially true whether we look at data from the establishment or household surveys, on a seasonally adjusted basis. In either case, both the number of employed residents (measured by the household survey) and the number of jobs (establishment survey) are below their March 2001 levels.

The household survey is based on a survey of about 1,200 households in the state. The employment estimate that results from this survey is designed to indicate the number of residents age 16 and older that did any work as paid employees, or who worked in their own business or profession, or on their own farm, or who worked 15 hours or more (unpaid) in a family business. This estimate counts an employed individual only once, no matter how many jobs that person holds.

Keep in mind that the household survey employment estimates will reflect job trends in other states, to the extent that West Virginia workers commute to jobs out of the state. Indeed, in 2000, 80,679 state residents commuted to jobs out of state. That amounts to 11.2% of employed state residents, far above the national average of 3.6%.

The establishment survey covers 6,000 West Virginia establishments, which accounts for about one-half of all jobs in the state. These estimates do not include the self-employed, farm workers, unpaid family workers, or domestics in private households. A person holding two jobs would be counted twice in this survey (once at each establishment).

While the same qualitative signal is coming from both surveys, the household survey suggests that the percentage drop has been much more severe. This estimate has declined at an annual rate of -1.1% from March 2001 to June 2004, which is much greater than the rate of decline estimated by the establishment survey (-0.25%). (The drop in this series would be even greater if not for a suspiciously large jump in employment (up about 20,000) in January of 2004.)



It is entirely possible that the household survey is correctly reflecting more severe job losses in our out-of-state commuting zones. Indeed, West Virginia's job growth since March 2001 has been better than that of Kentucky, Ohio, and Pennsylvania, although not as good as job growth in Maryland and Virginia. The household survey could also be picking up unusually severe job losses by the self-employed. Finally, it is also possible that, due to its small sample size, the household survey is simply overstating the employment loss. In general, the establishment survey tends to be a more stable and reliable estimate of job growth trends for state economies.

Figure 2
W.Va. Job Growth Before and After
National Recession

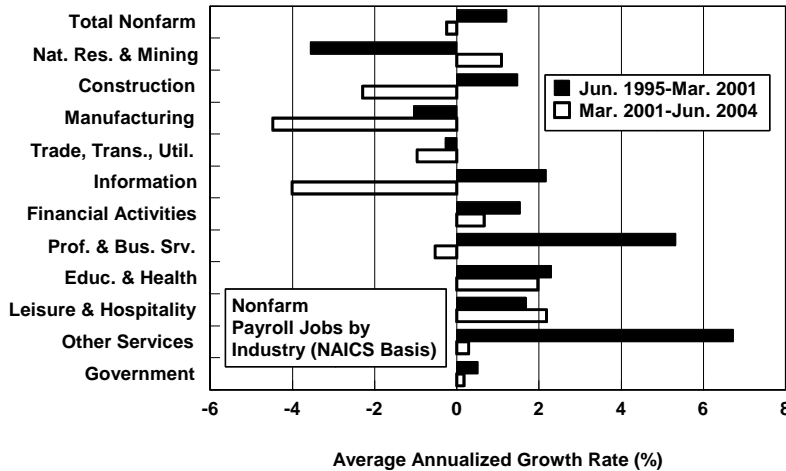
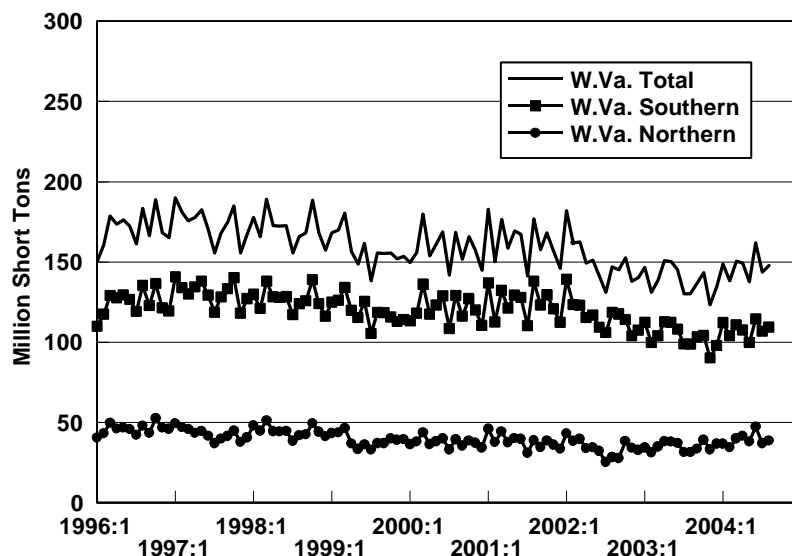


Figure 2 shows how state job growth has played out across sectors. The state has lost jobs at an annualized rate of -0.25% during the March 2001 to June 2004 period, which is actually less severe than the national average (-0.30%). That represents a net job loss of 5,900 during the period. Note, however, the increase in natural resources and mining jobs, which represents a net gain of 800 jobs during the period. That includes 200 additional coal mining jobs, which is notable because it was the result of a 2,000 job surge from February 2004 to June 2004.

The coal mining sector is changing rapidly at the moment, in response to a huge increase in spot prices for coal produced in Northern and Southern Appalachia. Indeed, the Energy Information Administration reports that spot prices for selected grades of Northern and Central Appalachian coal are now about twice their year ago levels (near \$60 per ton). Rising prices result from a combination of strong demand for coal, both domestically and internationally (with China's strong growth influencing world markets for raw materials), and from supply-side issues (including mine closures due to bankruptcies, accidents, permitting problems, and depletion of easily mineable reserves). This combination of factors is a recipe for strongly increasing prices, although supply issues have the potential to slow production gains.

Figure 3 shows West Virginia coal production estimates from the Energy Information Administration. According to these estimates, the state's coal production has declined from the 170 million ton per year range during 1996 to just 138.4 million tons in 2003. The drop reflects declines in activity in both the northern and southern part of the state. Note that activity has rebounded a bit during the first eight months of 2004, with state coal production up 1.7% the same period of 2003. This also reflects increasing activity in both the northern and southern parts of the state.

Figure 3
W.Va. Monthly Coal Production by Region
(Non-seasonally Adjusted, Annualized in Million Tons)



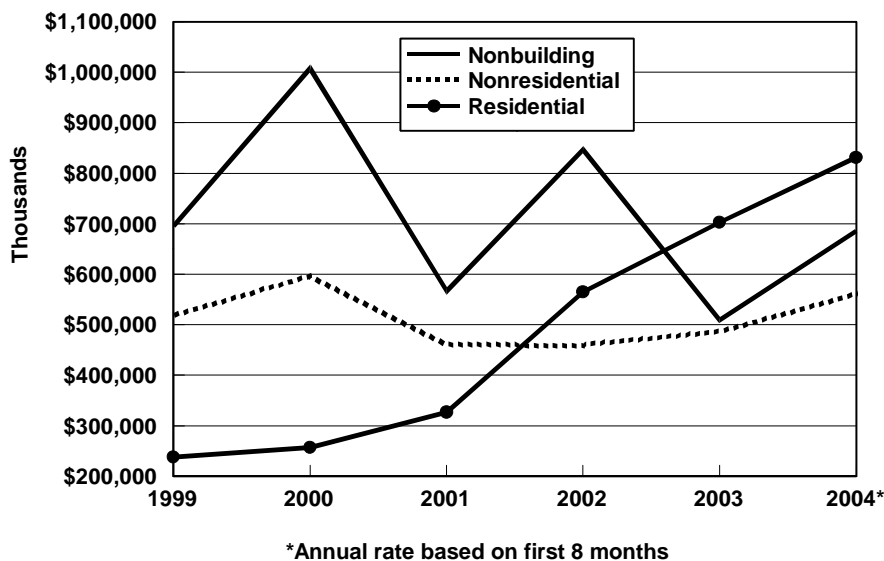
The net job growth in the coal mining sector reflects the increased production levels this year, and also the anticipation of continuing strong demand and high prices by the industry. The net job growth probably also understates the hiring activity in the industry at the moment. This is because many coal miners in the state are approaching retirement age. Indeed, the Census Bureau (QWI program) estimates that 58.5% of West Virginia coal miners were age 45 and older in 2002. This is well above the percentage of construction and manufacturing workers age 45 and older, at 36.2% and 44.1% in 2002, respectively. This suggests significant hiring effort will be required just to keep the net job level stable.

Other sectors adding jobs during the period include health care and leisure and hospitality, and to a smaller extent financial activities, other services, and government. Indeed, leisure and hospitality was the fastest growing major sector in the state during the period. This was primarily driven by gains in accommodation and restaurants, but the recreation (including gaming) sector contributed as well.

The manufacturing sector of the state economy has suffered huge job losses since March 2001. Indeed, the state has lost 10,200 jobs during the period, which translates into an annual rate of job loss of -4.8%. During the same period, the nation lost 2.5 million manufacturing jobs, an annualized rate of -4.9%. In West Virginia, nearly all manufacturing sectors lost jobs, with the exception of plastics and rubber, which was flat. The hardest hit sectors were glass products, steel, and chemicals. Each of these sectors faces its own particular set of challenges, but they have each been coping with intense international competition and, in the case of the chemicals sector, rising natural gas prices.

Employment growth in the construction sector has turned negative since 2001, although the level remains fairly high. The drop since 2001 is evenly reflected in the specialty trade sector (down 1,300 jobs) and the construction of buildings and nonbuilding construction sectors (as a group down 1,300 jobs). As Figure 4 suggests, the drop in construction jobs is reflecting a drop in the value of construction starts (from F.W. Dodge). Indeed, the value of nonbuilding, nonresidential, and residential construction starts for the state has fell from \$1.86 billion in 2000 to \$1.698 billion in 2003. At an annualized rate, reflecting activity through the first eight months of 2004, the value of construction starts looks set to rebound to the \$2.0 billion level. This bodes well for construction employment next year, since Dodge construction starts reflect projects expected to begin within the next six months.

Figure 4
West Virginia
Value of Construction Starts by Type
F.W. Dodge



Economic Forecast

Information (telecommunications and newspapers) has also experienced job losses during the period, with most of those lost jobs coming in the telecommunications sector, which continues to restructure to gain competitiveness. Finally, the formerly fast growing professional and business services sector has posted net job losses since March 2001. It is now down 1,000 jobs on a seasonally adjusted basis. There has been a mix of results within this industry, however, with the professional and technical services sector (legal, accounting, computer programming, research) adding jobs while the administrative services sector (employment agencies, call centers) has posted job losses.

West Virginia's unemployment rate has drifted back to the 5.2% range, after hitting 6.1% during 2002 and 2003. This keeps the state rate in the neighborhood of the national rate, which is about 5.5%. A falling unemployment rate during a period of little job growth suggests that some of West Virginia's unemployed residents are becoming discouraged (and thus ceasing their job search activities). This drops them out of the ranks of the unemployed and can lead to declines in the unemployment rate that do not reflect improved economic performance.

Population Losses Stop, Aging Continues

According to the latest population estimates from the Census Bureau, West Virginia's population has risen from 1,808,344 in April 2000 to 1,810,354 by July 2003. That is best described as population stability, which reflects the state's negative natural increase (1,800 more deaths than births) and a small net in-migration (2,400 net domestic in-migrants and 2,000 net international in-migrants). West Virginia remains the only state in the nation with negative natural increase.

Population stability driven by negative natural increase suggests that the state's median age may be rising. Based on the survey data from the American Community Survey, the state's median age (excluding the population living in institutions, college dormitories, and other group quarters) has indeed risen from 39.2 in 2000 to 40.0 in 2003. Small net in-migration during the period reflects the relatively solid job growth performance in the state, at least compared to other states. Indeed, during the March 2001 to June 2004 period, West Virginia's job growth ranked 27th in the nation (including the District of Columbia).

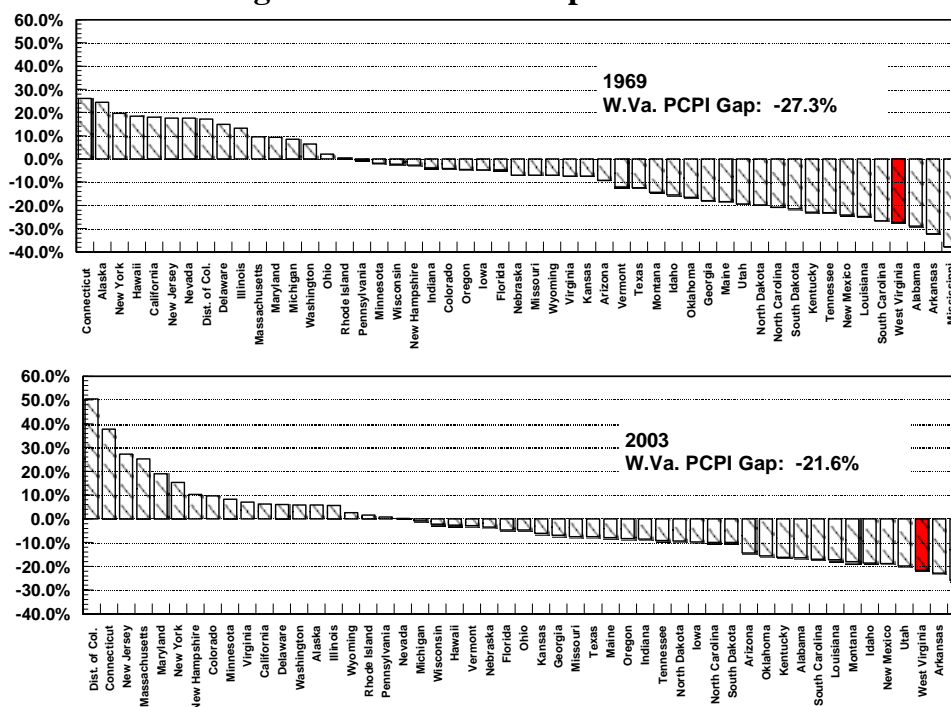
Income Gap

West Virginia has made progress in reducing its per capita personal income gap with the nation since 2000, driving it down from -26.6% in 2000 to -21.6% by 2003. This implies that the state must have grown faster than the national average during the period, and indeed, the state's annual growth rate was 4.1%, compared to 1.8% for the U.S. With an average annual inflation rate of 1.8% during the period, those growth rates imply no forward progress in national real per capita personal income, while the state's standard of living rose.

As Figure 5 shows, the state has also reduced the gap from its 1969 level, when it was -27.3%. Note however, that the state's per capita personal income ranking actually declined during the period, falling from 48th in 1969 to 49th in 2003. In other words, the state is (on average) better off, but you would not realize it based on its ranking. Indeed, rankings of state per capita personal income are strongly positively correlated across years. From 1969 to 2003, the state per capita personal income rank correlation coefficient was +0.85, which means that states tend to retain very similar rankings over time. This strong positive correlation is also present if we look over a much longer period, even going back as far as the late 1920s.

West Virginia's per capita personal income improvement with respect to the U.S. arose from better state results across the three major components of personal income: net earnings from work (including fringe benefits, proprietor's income, after adjustment for social insurance taxes and commuting flows); dividends, interest, and rent; and transfer payments (social security, Medicare, Medicaid, and welfare). Indeed, net earnings from work per full- and part-time employee rose by 3.9% per year in the state during the 2000 to 2003 period, compared to 2.9% for the U.S., before adjustment for inflation. Income from dividends, interest, and rent declined for both the state and the nation during the last three years, but the decline was more severe for the U.S. than for West

Figure 5
West Virginia Reduced the Gap But Its Rank Declined



Virginia. Finally, transfer income increased strongly for both the state and the nation, but the state growth rate (8.6% per year) outpaced the nation (6.1%). This has a disproportionate impact on West Virginia's per capita personal income, because transfers make up 26.7% of total state personal income, compared to 14.6% for the U.S. (in 2003).

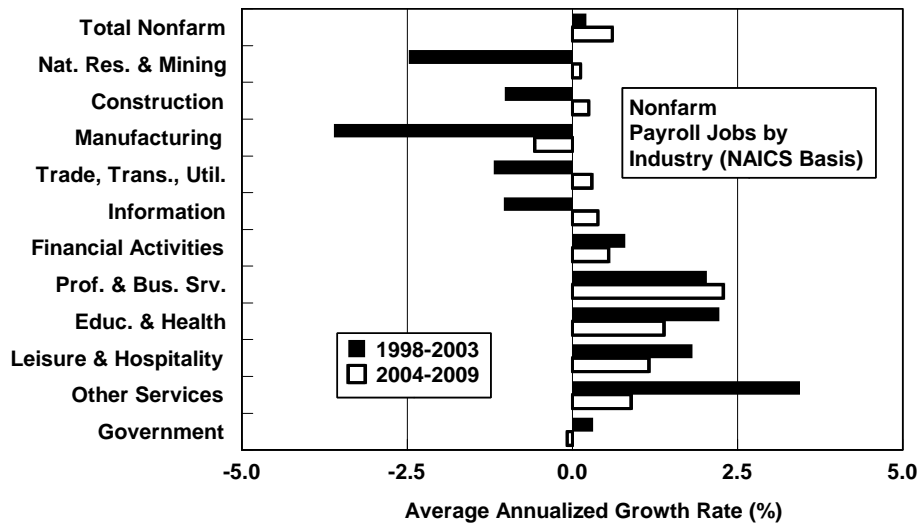
West Virginia Forecast

The forecast for the West Virginia economy depends in part on national and international economic events. The national forecast, which underpins the state outlook, is summarized in the National Outlook section of this publication. Overall, that forecast calls for the national economy to continue growing, although that growth is likely to slow as the national economy adjusts to sharply higher oil prices, higher interest rates, and less federal fiscal stimulus.

The West Virginia forecast for jobs by industry, population by age group, and income by component is detailed in Tables 2 and 3. As Figure 6 shows, the forecast calls for state job growth to rebound from an annual average rate of 0.2% during the last five years to 0.6% per year during the forecast. While that is certainly an improvement of the results of the last five years (which includes a recession), it is less than half the 1.6% per year rate the state posted in the 1990s.

Natural resources and mining jobs are forecast to continue to gain ground during the forecast, reflecting gains in coal mining during the period. Coal mining job gains are strongest through 2006, with a net increase of 2,600 jobs expected during the 2003-2006 period due to continued production growth. Coal production is forecast to peak in the 165 million ton range during 2006-2007, and then to taper back to 155 million tons, as increasingly stringent air quality restrictions imposed on power producers cut into demand for high sulfur coals produced in the state.

FIGURE 6
W.Va. Job Growth Improves



Construction employment rises during the forecast, as residential and nonresidential investment in the state continues. On the residential side, activity is likely to remain concentrated in the Eastern Panhandle region, as continued population gains spur gains in activity in the face of rising mortgage interest rates.

Manufacturing job growth is forecast to improve, although only in the sense that job losses moderate. The forecast calls for manufacturing to drop an additional 1,800 jobs during the next five years, with those losses concentrated in glass, primary metals (including steel), and chemical products. The losses are expected to moderate as the U.S. and world economies continue to expand (which tends to support demand), and as the value of the U.S. dollar continues its gradual downward slide. This tends to make U.S. exports more competitive in foreign markets and to make foreign goods less competitive in the U.S. Transportation equipment (including auto parts and aircraft), as well as wood products and plastic products are expected to post positive job gains during the next five years.

Professional and business services jobs continue to grow during the forecast, although that growth falls substantially short of the 5.5% per year rate it posted during the 1990s. Gains in this industry come from the professional services sector, with the development of biometrics and high-tech activity in general helping to stimulating gains. Call centers also have the potential to rebound, although competitive conditions, both domestically and from international sources, are likely to remain strong.

Job gains are also expected in the health care; leisure and hospitality; other services; and financial activities sectors, although gains are expected to come at a slower rate than during the last five years. Leisure and hospitality includes the gaming sector, which has expanded rapidly. With the legalization of slots in Pennsylvania (and continuing discussions in Maryland), this sector is likely to face increasing competitive pressure in the future.

Trade, transportation, and utilities jobs are expected to expand during the next five years, as Cabela's generates a large increase in destination retail activity in the state (as well as additional distribution jobs).

Sustained job growth sets the stage for the state's unemployment rate to fall from 6.1% in 2003 to 5.3% in 2004 and remain in that range through the forecast.

Sustained job growth, and renewed gains in natural resources and mining, the forecast calls for the state's real per capita personal income growth to expand by 2.0% per year, just below the national rate of growth of 2.4%. This suggests that the state's per capita personal income gap will begin to rise again.

Finally, state job gains and positive income growth, but at rates below the national average, suggest that the state will begin to post negative net migration again during the forecast. When combined with continued moderate rates of natural decrease, this implies population losses during the 2004-2009 period. Keep in mind however, that the population loss will not be evenly distributed across age groups. The fastest rates of decline, as Figure 7 shows, will likely be in the younger age groups: birth-17 and 18-44. These losses reflect both the low birth rates in the state, and the net out-migration (migrants tend to be relatively young). The state is likely to see population growth concentrated in the 45-64 age group, as the baby boom generation (roughly those born between 1946-64) transitions into this age category. Note the rough population stability in the 65-and-older age group. This reflects the state's high death rates (and poor health characteristics) and is the quiet before the storm of baby boomers begin their transition into this age group.

Figure 7
West Virginia's Young Age Groups
Lose Population During the Forecast

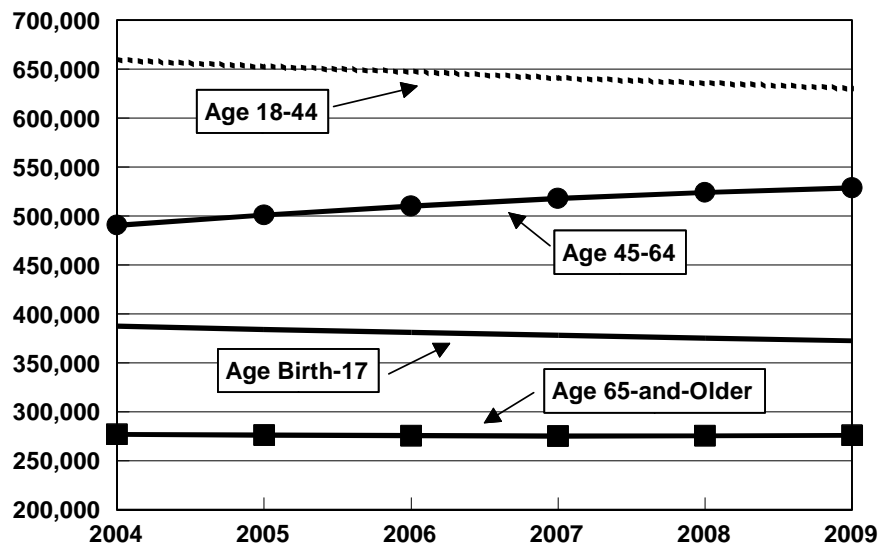


Table 2
West Virginia Employment, Labor Force, and Unemployment Rate Forecasts
 (Expressed in Thousands)

Indicator	Sources				Forecast				Actual				Years				Annual Growth	
	2004:2	2004:3	2004:4	2005:1	2005:2	Nonfarm Payroll Employment By Industry				2006	2007	2008	2009	W.Va. 2004-2009**	U.S. (%) 2004-2009**			
						2003	2004	2005										
Total Jobs	727.1	729.4	732.3	734.5	737.9	726.2	727.9	738.4	745.6	747.7	749.4	750.3	4.5	0.6	1.0			
Goods Producing	119.4	120.6	121.8	122.3	122.7	119.1	120.0	122.6	122.3	121.2	120.2	118.8	-0.2	-0.2	0.4			
Natural Res. & Mining	22.6	23.4	24.1	24.3	24.5	21.7	22.7	24.4	24.3	24.0	23.5	22.9	0.0	0.1	-3.3			
Mining	21.4	22.2	22.9	23.1	23.3	20.4	21.6	23.3	23.2	22.9	22.5	21.9	0.1	0.3	-3.3			
Coal Mining	15.2	16.1	16.7	17.0	17.1	14.5	15.5	17.1	17.1	16.8	16.3	15.7	0.1	0.3	n/a			
Other Mining	6.1	6.2	6.2	6.2	6.2	5.9	6.1	6.2	6.2	6.2	6.1	6.1	0.0	0.1	n/a			
Natural Resources	1.2	1.2	1.2	1.2	1.2	1.3	1.1	1.2	1.1	1.0	1.0	1.0	-0.0	-0.1	-3.2			
Construction	32.9	33.4	33.6	33.7	33.8	32.7	33.2	33.9	33.9	33.8	33.7	33.7	0.1	0.2	1.2			
Manufacturing	63.9	63.8	64.1	64.2	64.3	64.7	64.1	64.3	64.1	63.5	62.9	62.3	-0.4	-0.6	0.1			
Durable Mfg.	39.4	39.4	39.7	39.9	40.1	39.8	39.6	40.1	40.2	39.9	39.8	39.6	-0.0	-0.0	0.5			
Wood Products	8.4	8.5	8.6	8.7	8.7	8.3	8.5	8.7	8.7	8.8	8.9	9.0	0.1	1.2	-2.3			
Nonmetallic Minerals	4.2	4.2	4.2	4.2	4.2	4.4	4.2	4.2	4.3	4.2	3.9	3.7	-0.1	-2.5	1.2			
Primary Metals	7.7	7.7	7.9	8.0	8.0	8.2	7.9	7.9	7.8	7.5	7.2	7.0	-0.2	-2.3	-1.0			
Fabricated Metals	6.5	6.5	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.5	6.5	-0.0	-0.1	1.8			
Trans. Equip.	4.9	4.7	4.7	4.7	4.8	4.7	4.7	4.9	5.0	5.1	5.3	5.4	0.1	2.5	-0.0			
Other Dur.	7.7	7.7	7.7	7.8	7.7	7.6	7.7	7.8	7.8	7.9	7.9	7.9	0.0	0.6	-0.9			
Non-Durable Mfg.	24.6	24.5	24.4	24.3	24.3	24.9	24.5	24.2	24.0	23.6	23.1	22.7	-0.4	-1.5	-0.7			
Food Products	3.9	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9	3.9	3.8	-0.0	-0.6	0.6			
Chemicals	11.3	11.2	11.1	11.1	11.0	11.6	11.2	11.0	10.8	10.5	10.2	9.8	-0.3	-2.6	-0.8			
Plastics & Rubber	4.0	4.0	4.1	4.1	4.2	3.9	4.0	4.2	4.3	4.5	4.6	4.8	0.1	3.4	-0.8			
Other Non-Dur.	5.3	5.3	5.2	5.2	5.1	5.3	5.3	5.1	4.9	4.7	4.5	4.3	-0.2	-4.1	-1.5			
Service Producing	607.8	608.8	610.5	612.3	615.3	607.2	607.9	615.8	623.3	626.5	629.2	631.5	4.7	0.8	1.2			
Trade, Trans., & Utilities	135.6	136.0	135.5	136.4	136.6	135.5	135.3	136.6	137.6	137.8	137.5	137.4	0.4	0.3	0.7			
Wholesale Trade	22.7	22.7	22.7	22.7	22.8	22.8	22.7	22.8	22.8	22.9	22.9	23.0	0.0	0.2	0.9			
Retail Trade	87.6	88.0	87.6	88.5	88.7	87.6	87.4	88.7	89.6	89.8	89.3	88.8	0.3	0.3	0.1			
Utilities	6.3	6.3	6.3	6.3	6.2	6.3	6.3	6.2	6.0	5.8	5.8	5.7	-0.1	-1.8	-1.6			
Transportation & Warehousing	18.9	18.9	18.8	18.9	18.9	18.8	18.9	18.9	19.1	19.3	19.5	19.8	0.2	1.0	2.9			
Information	12.6	12.7	12.8	12.8	12.8	12.8	12.7	12.8	12.7	12.7	12.8	12.9	0.0	0.4	1.4			
Financial Activities	31.3	31.0	30.8	30.8	30.9	31.0	31.0	30.9	31.4	31.7	31.8	31.8	0.2	0.6	0.3			
Profess. & Business Services	56.9	56.9	57.7	56.6	57.4	56.4	57.1	57.5	59.1	61.1	62.7	63.9	1.4	2.3	3.3			
Educational & Health Services	107.7	108.0	108.4	109.5	110.3	108.1	107.7	110.4	112.6	113.8	114.8	115.4	1.5	1.4	1.3			
Educational Services	8.0	7.9	7.9	7.9	7.9	8.9	7.9	7.9	7.9	7.9	8.0	8.0	0.0	0.3	-0.6			
Health Care & Social Assist.	99.8	100.0	100.4	101.5	102.3	99.2	99.9	102.5	104.7	105.8	106.8	107.4	1.5	1.5	1.7			
Leisure & Hospitality	67.2	67.3	67.6	67.8	68.2	66.0	67.0	68.4	69.5	69.8	70.4	71.0	0.8	1.2	0.8			
Other Services	55.6	55.1	54.7	54.9	55.3	55.2	55.1	55.4	56.5	56.6	56.9	57.6	0.5	0.9	1.1			
Government	140.9	141.9	143.1	143.6	143.8	142.3	142.0	143.7	144.0	143.0	142.4	141.4	-0.1	-0.1	0.3			
Federal Civilian	22.0	22.7	22.7	22.7	22.7	21.9	22.4	22.8	22.8	22.8	22.7	22.5	0.0	0.1	0.1			
State & Local	118.8	119.3	120.3	120.9	121.1	120.3	119.6	120.9	121.2	120.2	119.8	118.9	-0.1	-0.1	0.3			
Labor Force	796.6	797.8	800.1	802.8	806.3	787.3	797.9	808.1	818.5	819.8	819.8	820.0	4.4	0.5	1.3			
Employed	754.9	756.6	759.0	761.7	765.2	739.1	756.2	766.5	774.8	775.5	775.9	776.6	4.1	0.5	1.2			
Unemployment Rate(%)	5.2	5.2	5.1	5.1	5.1	6.1	5.2	5.1	5.3	5.4	5.3	5.3	0.0	0.3	0.6			

* Quarterly data are seasonally adjusted.

** These columns contain the average yearly change during the 2004-2009 period

Table 3

Indicator	Quarters*				Years				Annual Growth							
	Actual	Forecast			Actual	Forecast			W.Va.	W.Va. (%)						
	2003:4	2004:1	2004:2	2004:3	2004:4	2003	2004	2005	2006	2007	2008	2009	2004-2009**	2004-2009**	2004-2009**	
Total Population	1,813	1,813	1,814	1,814	1,815	Population (Thousands)	1,810	1,814	1,815	1,814	1,813	1,810	-1.3	-0.1	0.9	
	390	389	388	387	386		391	387	384	381	378	375	373	-3.0	-0.8	n/a
	661	661	660	659	657		663	659	654	647	641	636	631	-5.7	-0.9	n/a
	483	486	489	492	495		479	491	501	510	518	524	529	7.6	1.5	n/a
	277	277	277	277	277		277	277	276	276	275	275	276	-0.2	-0.1	n/a
Total Red Income	43,328	43,491	43,654	43,911	44,119	Red Personal Income (Millions of 2000 Dollars)	42,331	43,367	44,222	45,320	46,211	47,001	887.9	2.0	3.3	
	19,986	20,076	20,153	20,229	20,322		19,725	20,032	20,348	20,615	20,797	20,974	21,137	221.1	1.1	3.0
	5,849	5,907	5,979	6,023	6,050		5,619	5,885	6,065	6,140	6,181	6,208	6,230	69.0	1.1	2.5
	2,872	2,868	2,905	2,925	2,943		2,798	2,861	2,949	3,001	3,065	3,109	3,130	53.9	1.8	3.6
	6,108	6,054	6,093	6,064	6,061		6,054	6,094	6,059	6,074	6,146	6,239	6,373	55.8	0.9	3.8
Transfer Income	11,757	11,709	11,676	11,831	11,905	11,296	11,684	11,962	12,617	13,084	13,456	13,839	431.0	3.4	4.1	
Red Per Capita Income	23,708	23,887	23,971	24,056	24,196	Red Per Capita Personal Income (2000 Dollars)	23,383	23,905	24,368	24,983	25,496	25,963	508.1	2.0	2.4	
	10,981	11,018	11,065	11,106	11,147		10,896	11,042	11,212	11,364	11,474	11,586	11,693	130.1	1.2	2.1
	3,200	3,224	3,256	3,295	3,319		3,104	3,244	3,342	3,385	3,410	3,429	3,446	40.5	1.2	1.6
	1,542	1,583	1,581	1,601	1,612		1,545	1,577	1,625	1,654	1,691	1,717	1,732	30.9	1.9	2.6
	3,375	3,367	3,337	3,358	3,341		3,344	3,359	3,339	3,348	3,391	3,447	3,525	33.2	1.0	2.8
Transfer Income	6,394	6,481	6,453	6,435	6,519	6,240	6,441	6,591	6,955	7,219	7,433	7,656	243.0	3.5	3.1	
Cod Production (Mil. Tons)	147	148	153	158	161	139	148	161	165	164	161	155	1.4	1.0	3.3	
Indicator	Actual				Forecast				Annual Growth							
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2004-2009**	2004-2009**	2004-2009**	2004-2009**
Red Gross State Product	37,791	39,111	38,665	39,012	39,811	40,311	41,070	41,799	42,371	42,831	43,248	43,626	511.1	1.2	3.0	

* Quarterly data are seasonally adjusted.

**These columns contain the average yearly change during the 2004-2009 period.

Risks

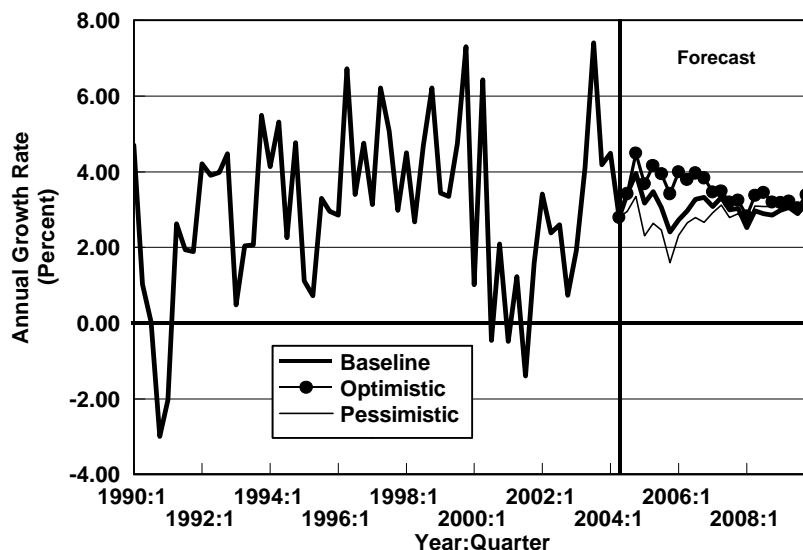
The baseline forecast for West Virginia depends on a baseline scenario for the U.S. and international economies. However, we must consider the possibility that some of the assumptions that underpin the baseline forecast may not come to pass. This section is designed to consider some of the major risks to the national and state forecasts.

Certainly, one of the major risks to the state outlook is the possibility that national growth may turn out to be significantly stronger or weaker than currently expected. To briefly summarize the baseline national forecast (from Global Insight, Inc.), real GDP growth is expected to remain positive during the next five years, but to slow from its 2004 level of 4.3% to the 3.0% range during the next five years. This occurs because oil prices are expected to remain relatively high (in the \$34-35 per barrel range), interest rates are expected to rise (30-year fixed mortgage rates rise from 5.89% in 2004 to 7.76% by 2009), and fiscal stimulus is expected to taper off (with the Federal budget deficit falling from \$432 billion in 2004 to \$278 billion in 2009).

As Figure 8 shows, this set of assumptions generates slower but still positive and steady real GDP growth. The optimistic scenario assumes that oil prices (as shown in Figure 9) are lower than under baseline assumptions and that productivity growth is stronger. This produces lower inflation during the forecast, and thus more breathing room for the Federal Reserve to keep interest rates a bit lower. In turn, this generates stronger construction and investment activity, and subsequently stronger real GDP growth. Global Insight assigns this scenario a 20% probability.

Figure 8
U.S. Real GDP Growth
Baseline and Alternatives

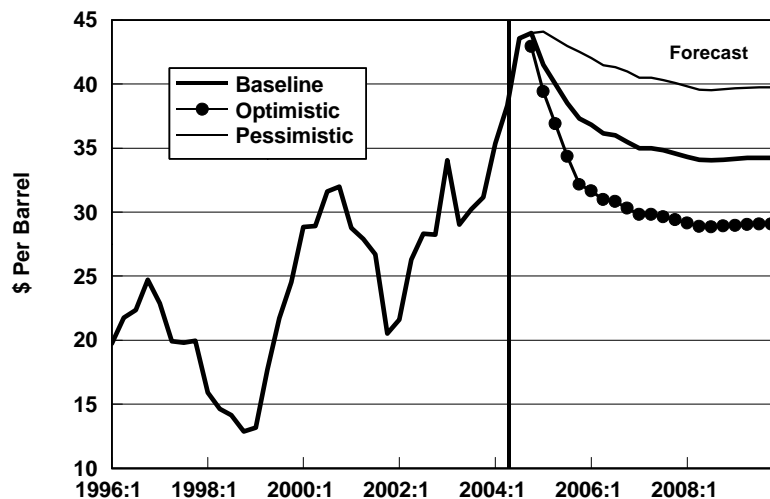
Forecasts from Global Insight
September 2004



On the other side of the coin is the pessimistic scenario, assigned a 20% probability. In this scenario surging oil prices, a rapidly declining value of the U.S. dollar, and years of loose monetary (and fiscal policy) interact to generate accelerating inflation. As inflation gains momentum, the Federal Reserve is forced to pursue higher interest rates, which depresses construction and investment and cuts into consumer sentiment and consumer spending more generally. By the middle of 2006, the federal funds rate (an overnight interest rate targeted by the Federal Reserve) hits 6.0%. As Figure 8 shows, this set of assumptions generates significantly slower real GDP growth.

Figure 9
West Texas Intermediate Oil
Baseline and Alternatives

Global Insight, Inc. September 2004



For West Virginia, these assumptions tend to generate a similar trend in state growth rates. Faster national growth tends to support faster state gains, and vice versa. Obviously, faster (slower) growth in our domestic and international markets tends to support state gains (losses). Further, interest rates influence construction and investment activity in West Virginia in the same way that they do in any state. Higher rates tend to diminish construction spending and to suppress capital investment.

Further, significantly slower U.S. and world growth would tend to depress raw materials prices, including those for coal and steel. Keep in mind that many Asian economies are significantly more reliant on oil than the U.S. is currently, and high oil prices have the potential to substantially slow their growth. A major drop in world coal demand could set the stage for an energy bust to follow the current strong increases in activity. Likewise, a strong drop in steel prices would put further pressure on the primary metals sector of the state economy.

There are also significant state-specific risks to the forecast. The coal sector is currently growing quickly, in part in an attempt to capitalize on high coal prices and strong world demand. However, as noted above, if the strong demand growth fizzles out in the next year or so, the industry may find itself facing a boom-bust scenario, with supply never quite synchronizing with demand. Further, the industry faces long-term competitive pressures from producers around the U.S. and the world, as well as regulatory risks related to clean water and clean air regulations.

Chemicals and steel still face strong competitive pressures, although a falling dollar should help sustain activity in the state. However, the chemicals sector faces continuing risks related to high natural gas and rising oil prices. Large plant closures in these two sectors could eliminate a significant portion of the expected job growth during the forecast.

In addition, the trend toward strong international competition is unlikely to abate in the near future. Indeed, it is likely to intensify and continue its spread to the service-providing sectors, such as call centers and computer and business services. Finally, the leisure and hospitality sector is expected to continue to add jobs during the forecast, in part due to continued gains in the gaming sector. This sector of the state economy is likely to face intensifying pressure in the future, as Pennsylvania legalizes slots and as Maryland continues serious discussions along those lines.

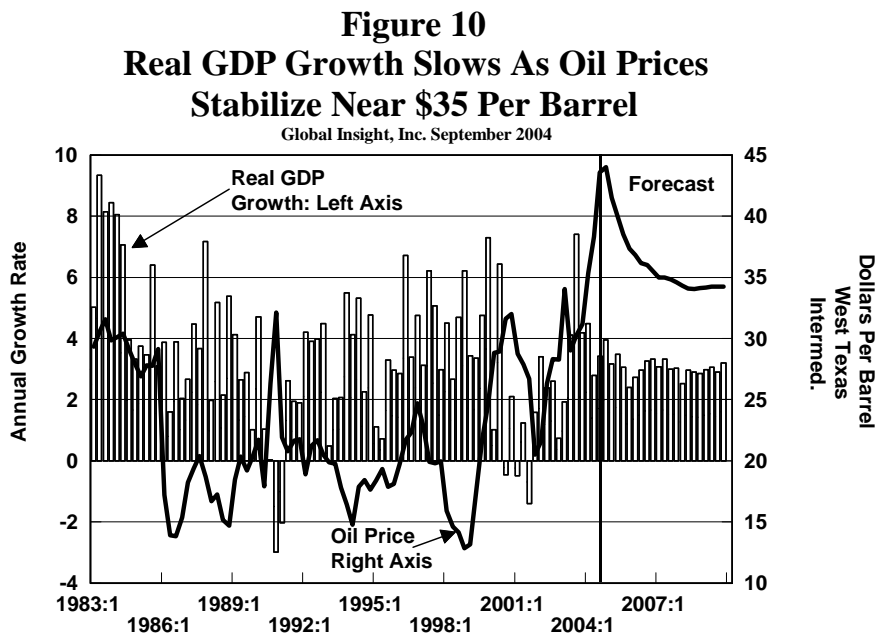
Economic Forecast

National Outlook

Trade is an important component of any state economy. After all, no state produces all of the goods and services desired by its residents. Thus, state and regional economies are connected to the economic and political events taking place in the U.S. and around the world. This also implies that the future performance of any single state depends, at least to some extent, on the aggregate performance of all states and the world economy in general. Likewise, the forecast for the West Virginia economy depends on a forecast for the U.S. and world economies. This forecast, which comes from Global Insight, Inc. (a worldwide consulting and forecasting group), is summarized in this section.

Recent Developments

National economic growth slowed in the second quarter, as higher oil prices, rising interest rates, and a sharp rise in the trade deficit took their toll. Real GDP growth slowed from 4.5% growth in the first quarter of 2004 to 2.8% in the second quarter, as Figure 10 shows. The figure also shows the increase in the price of oil during the second quarter, as the price per barrel of West Texas Intermediate (a benchmark grade of oil) rose from \$35.35 in the first quarter to \$38.31 in the second quarter of 2004. As the figure shows, oil prices in the \$40 range are very high compared to past history. After adjusting for inflation, current oil prices are as at their highest level since the first Gulf War.



The Federal Open Market Committee began raising the target federal funds rate at the end of June, and subsequently raised the target two more times, with the latest target rate set at 1.75% in September. This tightening of monetary policy by the Federal Reserve is intended to head off any future acceleration in inflation. Short-term and long-term rates have also headed higher recently, with the 30-year mortgage rate rising from 5.61% in the first quarter of 2004 to 6.13% by the second. This will likely slow construction activity in the near term, as intended by the Federal Reserve. Fiscal policy remains remarkably loose, for the time being, as the federal government budget deficit hit \$374 billion in 2003.

Nonfarm payroll employment growth accelerated in the second quarter, with the rate rising from 1.1% in the first quarter to 2.3 in the second. This likely reflects stronger GDP growth during previous quarters. The national unemployment rate remained stable at 5.6% in the second quarter, below its 2003 average of 6.0%. Inflation accelerated during the second quarter, with the rate of increase in the CPI rising from 3.6% in the first quarter to 4.7% by the second. This acceleration reflects rising oil prices.

Finally, the current account deficit remains huge and grew from \$579 billion in the first quarter to \$667 billion in the second. The current account deficit in 2003 hit 4.8% of GDP.

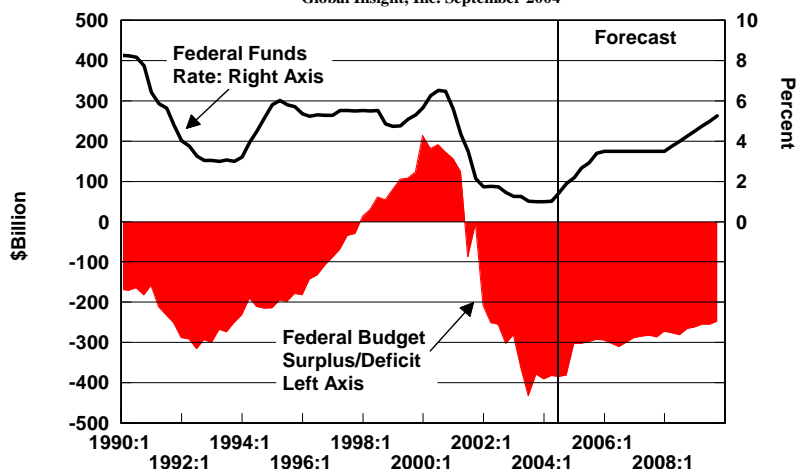
National Forecast

The national forecast, summarized in Table 4 and produced by Global Insight, Inc. in September 2004, calls for the U.S. economy to weather the current slowdown and continue growing in the near future. However, it calls for growth in during the forecast to generally fall short of gains recorded during 2004. As Figure 10 shows, real GDP growth remains positive during the forecast, but rates tend to be in the 3.0% per year range during the forecast. Oil prices remain high, compared to past levels, but do fall from the \$40 per barrel range during 2004-2005 back down below \$35 per barrel by the end of the forecast.

As Figure 11 shows, both monetary and fiscal positive become less stimulative during the forecast. The forecast calls for the federal funds rate to rise from 1.33% during 2004 to 3.5% by 2006. This generates higher rates along the yield curve, with the 30-year mortgage rate forecast to rise from 5.89% in 2004 to 6.67% by 2006. This generates slower construction activity during the period, as housing starts fall from 1.9 million in 2004 to 1.66 million by 2006.

Figure 11
Monetary and Fiscal Policy Tighten
During the Forecast

Global Insight, Inc. September 2004



As Figure 11 also shows, federal fiscal policy is expected to gradually become less expansionary, with the federal government budget deficit expected to fall from \$432 billion in 2004 to \$291 billion in 2006. The forecast assumes that Congress gradually raises personal income tax collections back to their historical average and that the “bonus depreciation” provisions are allowed to expire. Overall, federal spending growth on goods and services is expected to slow significantly.

Finally, as Figure 12 shows, the U.S. current account deficit is forecast to gradually (and moderately) rebound from 5.6% of GDP to 5.2% by 2006 and 4.6% by 2009. This moderation is driven by sustained world growth (which supports U.S. export growth) and by a gradually depreciating value of the U.S. dollar, which is forecast to fall by an additional 8.9% from 2004 to 2009.

Figure 12
Current Account Deficit Stops Growing
As the U.S. Dollar Depreciates

Global Insight, Inc. September 2004

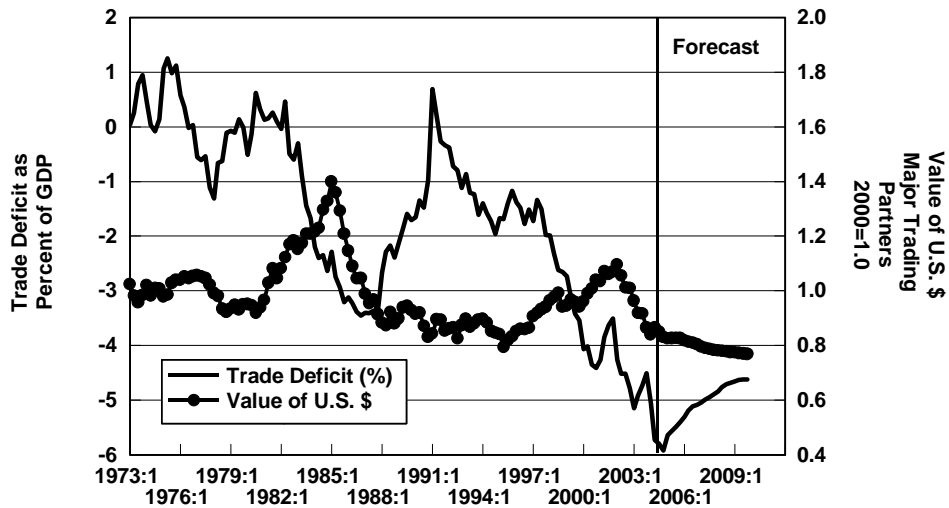


Table 4
U.S. Forecast
Global Insight September 2004

	Years						
	Actual 2003	Forecast					
		2004	2005	2006	2007	2008	2009
		Annual Percent Change					
Real GDP	3.0	4.3	3.3	2.9	3.2	2.9	3.0
Industrial Production	0.3	4.5	3.7	3.4	4.8	4.1	3.6
Nonfarm Employment	-0.3	1.0	1.7	1.1	0.9	0.7	0.8
Nominal Personal Income	3.2	5.3	4.8	5.1	5.4	5.4	5.7
Personal Consumption Deflator	1.9	2.2	1.8	1.7	2.0	2.1	2.2
Real Export Growth (GDP Basis)	1.9	9.3	10.4	9.6	9.4	8.8	8.2
Real Import Growth (GDP Basis)	4.4	10.2	4.9	4.5	5.9	4.8	4.6
		Percent					
Unemployment Rate	6.0	5.5	5.4	5.6	5.6	5.7	5.7
Federal Funds Rate	1.13	1.33	2.79	3.50	3.50	3.88	4.88
30-Year Fixed Mortgage Rate	5.82	5.89	6.46	6.67	6.79	7.24	7.76
		Billions of Dollars (FY)					
Federal Budget Surplus (Unified Basis)	-374	-432	-322	-291	-284	-290	-278
		Key Prices					
Trd.Wtd. Value of U.S. Dollar vs Major Trading Partners (2000=1.000)	0.916	0.847	0.827	0.812	0.789	0.779	0.771
Oil - West Texas Intermediate (\$ per barrel)	31.12	40.31	39.33	36.13	34.85	34.14	34.22

Economic Forecast

Appendix

General Information and Data Sources

The West Virginia forecast uses seasonally adjusted quarterly data and most series are forecast from the third quarter of 2004 to the fourth quarter of 2009.

Seasonally adjusted quarterly establishment and resident employment data for West Virginia are the average of monthly seasonally adjusted estimates supplied by Research, Information, and Analysis Division, West Virginia Bureau of Employment Programs. All employment data are forecast from the third quarter of 2004 to the fourth quarter of 2009.

Historical seasonally adjusted national employment data used in most tables and figures can be found at the Bureau of Labor Statistics web site <<http://www.bls.gov/>>. The West Virginia Bureau of Employment Programs offers a wealth of labor market data for the state and its regions online at <<http://www.wvbep.org/bep/>>.

Seasonally adjusted historical nominal personal income data for West Virginia and the U.S. from 1969 to the second quarter of 2004 come from Personal Income by Major Source, Regional Economic Information System, Bureau of Economic Analysis. These estimates are also available free on the Internet through the Bureau of Economic Analysis web site <<http://www.bea.doc.gov/bea/regional/data.htm>>. West Virginia data are forecast from the third quarter of 2004 through the fourth quarter of 2009.

Quarterly West Virginia population estimates are derived from annual data for the 1958 to 2003 period. The source for this data is Census 2000 and Current Population Reports, Series P-25, Bureau of the Census. Population estimates are also available on the Internet, through the Bureau of the Census <<http://www.census.gov/>>. West Virginia population is forecast from the first quarter of 2004 to the fourth quarter of 2009.

All U.S. forecast data come from the Review of the U.S. Economy, September 2004, Global Insight. All forecast data for West Virginia, except where otherwise noted, come from the West Virginia State Econometric Model, Bureau of Business and Economic Research, West Virginia University.

Economic Forecast

Frequently Used Terms

Annual Growth Rates between consecutive years are calculated as:

Annual Growth Rate in Percent

$$= \left[\left(\frac{X_t}{X_{t-1}} \right) - 1 \right] \times 100,$$

where X denotes the time series for which the growth rate is being calculated, t denotes the reference time period and t-1 denotes the previous time period.

Civilian Labor Force includes noninstitutionalized civilian residents, aged 16 and older, who are either employed or unemployed.

Consumer Price Index (CPI) is an index of retail prices of a representative basket of goods and services purchased by consumers. Percentage change is commonly used as a measure of inflation. Incorrectly referred to as cost-of-living index. The Consumer Price Index used here is for all urban consumers.

Dividends, Interest, and Rent is income from the three sources mentioned. Dividend income is the dividend income received by individuals. Interest income is the monetary interest received by individuals. Rental income is the income from the rental of real property and royalties. In 2003, income from dividends, interest, and rent accounted for 14.3% of West Virginia total personal income.

Federal Funds Rate is the interest rate on Federal Funds, which are reserves borrowed and lent by member institutions to one another, usually overnight. Reserves are deposits at member institutions (e.g. commercial banks, savings and loans, and credit unions) which have not been converted into loans to customers. Member institutions must hold a fraction of deposits as reserves.

Gross Domestic Product (GDP) is the market value of all final goods and services produced by labor and property located in the United States.

Gross State Product (GSP) is the market value of goods and services produced by labor and property located in a state. For more, see the Winter 1998 West Virginia Business and Economic Review.

Industrial Production is an index which measures output from manufacturing, mining, and electric and gas utilities industries. The industrial production index's base year is 1992=100.

Nonfarm Payroll Employment includes persons on establishment payrolls who received pay for any part of the pay period which includes the 12th of the month. Nonfarm payroll employment does not include proprietors, the self-employed, unpaid volunteer or family workers, farm workers, domestic workers, or military personnel. Nonfarm payroll employment is a count of jobs not people.

Other Labor Income includes payments by employers to private benefit plans for employees and employer contributions for social insurance. Private benefit plans include pension and profit-sharing plans, private group health and life insurance, supplemental unemployment benefit plans, and payments by employers to privately administered workers' compensation plans. In 2003, other labor income accounted for 13.3% of West Virginia total personal income.

Personal Income is income received by residents before income taxes. It includes wages and salaries, proprietors' income, other labor income, dividends, interest, rental income, and transfer payments.. For more, see the Spring 1997 West Virginia Business and Economic Review.

Population is the number of persons whose usual place of residence was within the state (nation) at the time the census was taken. It is also referred to as resident population. Persons in the military or institutionalized are counted where the military base or institution is located, as long as that is within the U.S.

Proprietors' Income is the income of sole proprietorships and partnerships and of tax-exempt cooperatives. A sole proprietorship is an unincorporated business owned by a person. A partnership is an unincorporated business with two or more partners. In 2003, proprietors' income accounted for 6.6% of West Virginia total personal income.

Quarterly Growth Rates shown in certain tables are compound annual growth rates. They are calculated using quarterly data as:

Compound Growth Rate in percent

$$= \left[\left(\frac{X_t}{X_{t-1}} \right)^4 - 1 \right] \times 100,$$

where X denotes the time series for which the growth rate is being calculated, t denotes the reference time period and t-1 denotes the previous time period.

Real (Constant) Dollar figures have been adjusted for inflation. Using real figures eliminates the year-to-year changes in price and gives a clearer picture of the true changes in purchasing power, production, etc. Real GDP (or GSP) gives a more accurate measure of increased production than nominal GDP, which is given at current price levels.

Resident Employment includes all those employed for pay during the week including the 12th of the month, or who worked more than 15 hours unpaid in a family business, and those who were temporarily absent from their regular job. A person may only be counted as employed once using this measure.

Seasonal Adjustment is a statistical procedure designed to remove regularly occurring seasonal fluctuations in time series data. It is designed to account for the fact that some economic time series tend to rise (or fall) in the same month or quarter every year. Typical examples are strong gains in retail sales (and retail trade employment) before Christmas and gains in construction employment in the spring followed by similar losses in the winter.

Ten-Year Treasury Note Yield is the yield on a ten-year treasury note. The yield (interest rate) is expressed as an annualized rate.

Transfer Income is income not related to participation in current production. It includes income from Old Age Survivors and Disability Insurance (OASDI), Medicare, Medicaid, unemployment and workers' compensation, Aid to Families with Dependent Children, and food stamps, in addition to various other sources. In 2003, transfer income accounted for 26.7% of West Virginia total personal income.

Unemployment Rate is the percent of the civilian labor force that is unemployed. The civilian labor force is comprised of noninstitutionalized persons 16 years of age or over who are employed or unemployed. A resident is considered to be unemployed for the month if that person is at least 16 years old and is not currently employed but is available and actively looking for work during the survey week (the week including the 12th of the month).

Wage and Salary Income is monetary payments to employees for participation in current production. Wages and salaries are measured before deductions for Social Security and union dues and reflect the wages and salaries disbursed, not necessarily earned during the period. In 2003, wages and salaries accounted for 46.6% of West Virginia total personal income.